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Annual Report
FIRST NATIONAL STORES INC.
year ending

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April 1, 1950

FIRST NATIONAL STORES INC.

Officers

ADRIAN F. O'KEEFFE, <i>President</i>	RALPH F. BURKARD, <i>Treasurer</i>
JAMES C. DUANE	<i>Vice-President</i>
BYRON M. FLEMMING	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
EDMUND J. MURPHY	<i>Vice-President</i>
JOHN E. ELWELL	<i>Clerk</i>

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Executive Committee

RALPH F. BURKARD
JOHN L. MACNEIL
ADRIAN F. O'KEEFFE

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Directors

CHARLES H. BURGER	BYRON M. FLEMMING	JOHN L. MACNEIL
RALPH F. BURKARD	SAMUEL JOSELOFF	JAMES J. O'HARE
JAMES C. DUANE	DANIEL J. LYNE	ADRIAN F. O'KEEFFE

Somerville, Massachusetts, June 8, 1950

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

This report covers the operations of your Company for the fiscal year ending April 1, 1950.

Sales amounted to \$344,171,022 (for 52 weeks) as compared to \$354,444,614 (for 53 weeks) in the previous fiscal year. On a weekly average basis our dollar sales were about 1% less than in the prior year, but our tonnage of food sold increased by 4% as retail prices on foods were lower.

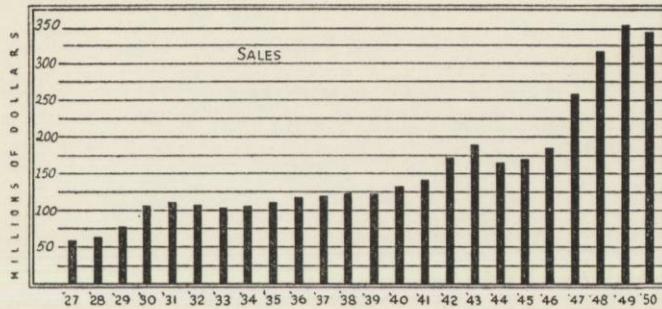
Earnings, after charging to operations \$1,382,734 for accelerated depreciation on fixed assets, amounted to \$6,997,980 or \$8.55 for each common share. For the previous fiscal year we reported that \$7.21 for each common share was earned after an appropriation of \$2,000,000 reserve for inventories in retail stores. However, the Securities and Exchange Commission, subsequent to the distribution of last year's report, required that we charge this appropriation to surplus rather than to operations.

The economic or productive life of our fixed assets is today much shorter than the natural life upon the basis of which these assets have been depreciated previously on our books. Our industry is presently undergoing rapid changes and our fixed assets do not produce efficiently throughout their so-called natural or physical life. In recognition of this, your management has adopted the policy of providing accelerated depreciation on completed additions to warehouses, store fixtures, machinery and equipment at the rate of 7½% per annum during the first two years of use, when the revenue producing values of the properties are greatest and maintenance costs are lowest. The charge to operations during the year, based upon additions completed during the two years ending April 1, 1950, amounted to \$1,064.724. Our previous practice of charging operations with additional depreciation to cover future obsolescence or inadequacy of store buildings continues and the provision of \$318,010 for such obsolescence is classified in the accompanying statement of earnings as accelerated depreciation.

A condensed summary of our operations follows:

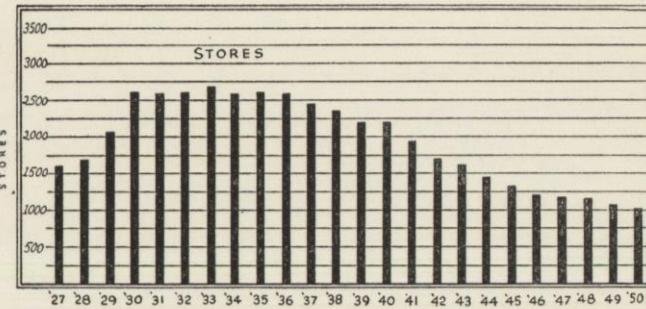
	<i>For the Fiscal Year Ending April 1, 1950</i>
Retail stores sales	\$344,171,022
Net profits after taxes, depreciation and other charges	6,997,980
Per share on common stock	\$8.55
	<i>As of April 1, 1950</i>
Net working capital (current assets less current liabilities)	\$ 11,897,741
Fixed or property assets (less depreciation)	29,548,890
Stockholders' equity (net worth)	45,219,438
Earnings used in the business (appropriated and unappropriated)	38,483,159

On the following page graphic charts show the results of our operations for the past twenty-four years.



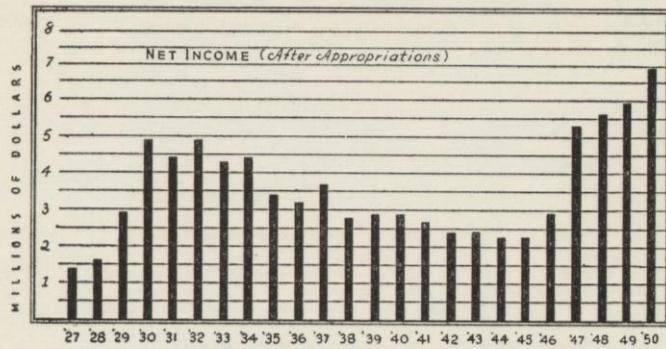
Retail Stores Sales—Fiscal Years

1927	\$59,038,304	1935	\$111,323,463	1943	\$187,839,592
1928	64,445,962	1936	119,575,417	1944	164,924,978
1929	75,884,639	1937	120,682,961	1945	170,236,678
1930	107,635,216	1938	124,294,617	1946	182,131,241
1931	108,196,686	1939	124,222,955	1947	256,506,910
1932	107,634,383	1940	131,041,157	1948	315,915,554
1933	100,892,947	1941	142,680,921	1949	354,444,614
1934	105,812,781	1942	174,378,932	1950	344,171,022



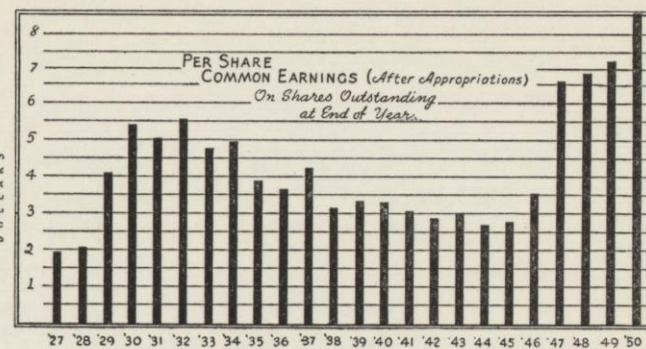
Stores—Fiscal Years

1927	1681	1935	2623	1943	1585
1928	1717	1936	2556	1944	1463
1929	2002	1937	2473	1945	1340
1930	2549	1938	2350	1946	1236
1931	2548	1939	2244	1947	1201
1932	2546	1940	2137	1948	1150
1933	2705	1941	1923	1949	1083
1934	2653	1942	1748	1950	1033



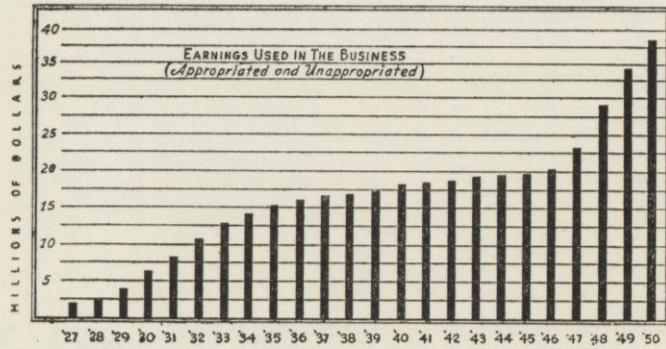
Net Income—Fiscal Years

1927	\$1,492,193	1935	\$3,433,504	1943	\$2,465,079
1928	1,593,358	1936	3,163,329	1944	2,235,104
1929	2,904,884	1937	3,647,001	1945	2,294,604
1930	4,773,446	1938	2,705,191	1946	2,885,555
1931	4,479,108	1939	2,774,366	1947	5,357,235
1932	4,825,611	1940	2,739,074	1948	5,629,705
1933	4,220,099	1941	2,508,719	1949	5,905,880
1934	4,394,830	1942	2,380,294	1950	6,997,980



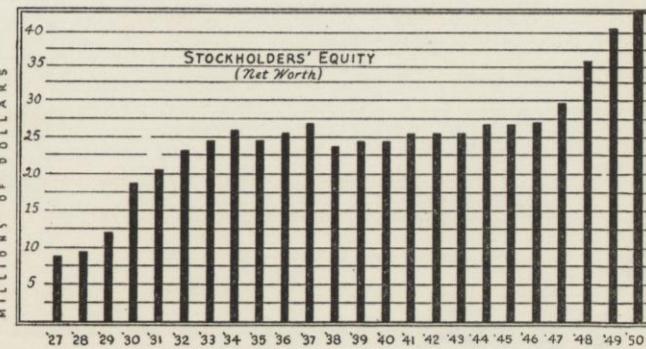
Per Share Common—Fiscal Years

1927	\$1.92	1935	\$3.89	1943	\$3.01
1928	2.09	1936	3.65	1944	2.73
1929	4.07	1937	4.24	1945	2.80
1930	5.39	1938	3.14	1946	3.52
1931	5.03	1939	3.38	1947	6.54
1932	5.52	1940	3.34	1948	6.87
1933	4.78	1941	3.06	1949	7.21
1934	4.97	1942	2.90	1950	8.55



Earnings Used In The Business—Fiscal Years

1927	\$1,996,375	1935	\$15,121,448	1943	\$19,308,135
1928	2,238,303	1936	16,062,827	1944	19,496,819
1929	3,987,782	1937	16,670,118	1945	19,745,003
1930	6,369,726	1938	16,688,036	1946	20,334,138
1931	8,371,910	1939	17,423,131	1947	23,235,669
1932	10,816,321	1940	18,112,565	1948	29,189,624
1933	12,666,672	1941	18,572,964	1949	34,350,171
1934	14,213,494	1942	18,889,476	1950	38,483,159



Stockholders' Equity—Fiscal Years

1927	\$8,723,782	1935	\$24,820,470	1943	\$26,044,414
1928	8,965,710	1936	25,761,849	1944	26,233,098
1929	11,724,410	1937	26,369,140	1945	26,481,282
1930	18,347,148	1938	23,746,089	1946	27,070,417
1931	20,349,333	1939	24,216,168	1947	29,971,948
1932	22,793,743	1940	24,874,883	1948	35,925,903
1933	24,644,049	1941	25,293,286	1949	41,086,450
1934	26,190,916	1942	25,625,755	1950	45,219,438

DIVIDENDS PAID

For the fiscal year ending April 1, 1950, dividends totalling \$3.50 per share were paid on the common stock outstanding—four quarterly dividends of 75¢ a share and a special dividend of 50¢ a share.

GROCERY STORES AND MARKETS

Your Company had in operation on	April 1, 1950	April 2, 1949
Grocery Stores	655	704
Markets or Combination Grocery, Fruit, Vegetable, and Meat Stores	378	379
Total Grocery Stores and Markets	1,033	1,083

On April 1, 1950 we were operating 50 fewer stores than on April 2, 1949. Of the 655 grocery stores, 266 are of the Self-Service type and of the 378 markets, 316 are Self-Service Super Markets.

TAXES

Our total direct tax bill for the fiscal year ending April 1, 1950 amounted to \$7,934,726. This amounts to 53% of our profits before taxes for the year and equals \$9.69 for each share of our Common Stock.

A summary of our direct taxes follows:

Fiscal Year	Total Direct Taxes	% of Income (before taxes)	Per Share On Common	Per Store Operated
1950	\$7,934,726	53%	\$9.69	\$7,681
1949	7,706,262	57%	9.41	7,116
1945	4,776,961	67%	5.83	3,564
1940	1,656,274	37%	2.02	753
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

COMMENTS

During the past fiscal year, we opened twenty-four new super markets, including seven which replaced existing, older-type units. Fourteen of these new stores are leased and ten are owned by your Company. Twenty-seven existing stores were completely modernized by enlargement or remodeling. Seven new self-service grocery stores were opened. Our program of improving existing locations and developing new locations will continue in the current year.

Progress continues to be made in our warehouse development and modernization program. The new bakery and warehouse in Portland, Maine, have been operating for the past year. Its efficiency has met our expectations. A similar modern one-story warehouse at East Providence, Rhode Island, the final major project of this warehouse program, is now under construction and occupancy in the early fall is planned.

Expenditures for this development of stores and warehouses have been substantial—but very necessary to the continued successful operation of your Company.

Costs of store fixtures, warehouse buildings, machinery and equipment have more than doubled in the last ten years. In addition, the large stores of today require more and better equipment. Modern merchandising methods typified by our extensive refrigerated dairy and self-service meat departments, make necessary a greatly increased fixture investment in each store.

The resignation of Charles H. Burger as director was accepted with regret on May 9, 1950. He was replaced on the Board of Directors by Bernard M. O'Keeffe, who has been associated with the Company since its inception in 1925.

Byron M. Flemming, Director and General Manager of our Providence Division, and Edmund J. Murphy, General Manager of our Hartford Division, were elected Vice Presidents on June 27, 1949.

STOCKHOLDERS

In March, 1950 we had 10,502 stockholders in the Company. Each store we now operate has an average of 10 stockholder-owners.

The total number of our stockholders at various intervals follows:

1950	1944	1938	1932	1926
10,502	9,542	9,228	4,607	1,304

Worthy of special comment in this report is the loyal and able cooperation of the Company's personnel. Your Company constantly gives consideration to the human side of its activities, knowing that the well-being and security of its employees is essential to efficient performance. Our group health and accident plan together with our life insurance and pension plans, provide substantial benefits for our employees before and after retirement.

The business of food distribution is important to the American way of life. Our form of distribution is one of the elements which makes possible a high standard of living in the United States, because the savings which our methods effect are reflected in lower retail food prices. Important changes in food retailing continue to occur. We in First National Stores are constantly studying and adopting new operating and merchandising methods with the purpose of keeping our business properly equipped for continued progress.

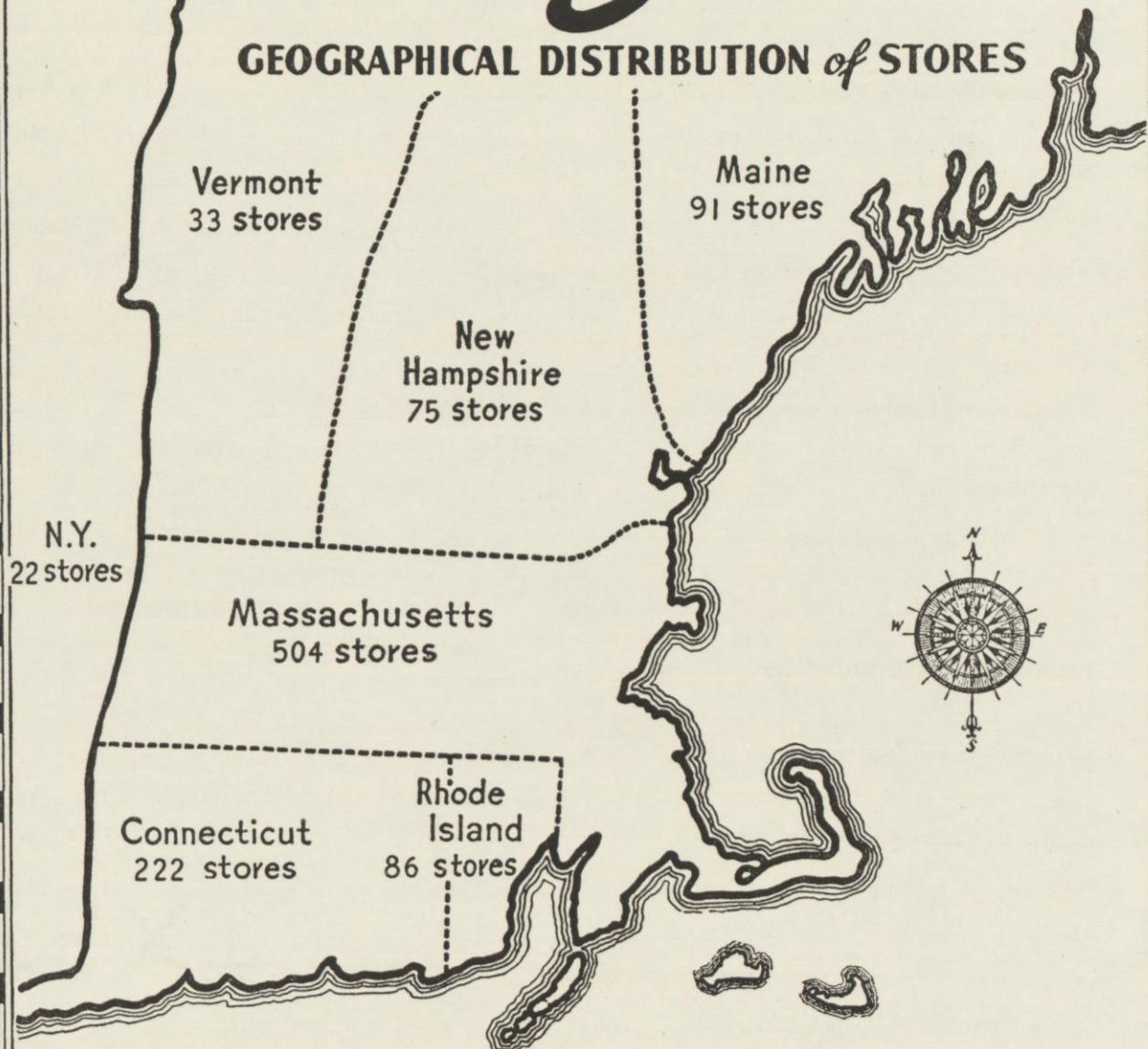
ANNUAL MEETING—PROXIES

A notice of the annual meeting of stockholders, proxy statement and proxy accompany this report. Stockholders ARE REQUESTED TO SIGN THE MANAGEMENT'S AUTHORIZED PROXY AND MAIL PROMPTLY IN THE ENVELOPE PROVIDED. Your immediate attention to this important matter will be greatly appreciated and will save your Company considerable time and expense.

ADRIAN F. O'KEEFFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION of STORES



SCALE OF MILES

0 50 100 150

Total Number
of Stores

as of April 1, 1950

1033

FIRST NATIONAL STORES INC.

COMPARATIVE BALANCE SHEET

	ASSETS	April 1, 1950	April 2, 1949
CURRENT ASSETS:			
Cash in banks and on hand	\$. 8,094,027	\$ 9,839,364	
Accounts receivable, less allowance for bad debts	584,287	584,250	
Inventories (Note 1)	24,794,282	22,740,654	
Total current assets	\$33,472,596	\$33,164,268	
CLAIMS FOR REFUNDS OF FEDERAL TAXES ON INCOME—NET (Note 1)	\$ 2,850,000	\$ 2,576,000	
INVESTMENTS AND ADVANCES, ETC.:			
Wholly-owned subsidiary companies—at cost less reserve of \$40,000 (represented by underlying net assets of \$827,308 in 1950 and \$838,152 in 1949)	\$ 260,833	\$ 360,833	
Miscellaneous	79,039	76,495	
Total investments, etc.	\$ 339,872	\$ 437,328	
DEFERRED CHARGES:			
Prepaid insurance, deferred local taxes, supplies, etc.	\$ 2,023,225	\$ 2,058,196	
FIXED ASSETS (at cost, after deducting fully-depreciated assets):			
Land	\$ 3,015,600	\$ 2,981,351	
Buildings owned	16,989,499	13,826,825	
Store fixtures, leased property improvements, machinery and equipment	17,881,240	11,989,383	
Automotive equipment	1,684,870	1,701,230	
	\$39,571,209	\$30,498,789	
Less—Accumulated depreciation to end of year	10,022,319	7,965,240	
Total fixed assets (net)	\$29,548,890	\$22,533,549	
GOODWILL	\$ 1	\$ 1	
	\$68,234,584	\$60,769,342	

FIRST NATIONAL STORES INC.

COMPARATIVE BALANCE SHEET

	LIABILITIES	
	April 1, 1950	April 2, 1949
CURRENT LIABILITIES:		
Note payable to bank	\$ 2,000,000	\$. . .
Accounts payable	8,871,861	7,822,352
Owing to subsidiary companies	339,381	276,456
Accrued local and state taxes and other expenses	4,290,737	3,765,590
Employees' investment certificates	161,340	177,370
Federal income taxes	5,911,536	6,051,361
Total current liabilities	<u>\$21,574,855</u>	<u>\$18,093,129</u>
RESERVES:		
For past service premiums under retirement annuity plan	\$ 1,256,273	\$ 1,465,849
Miscellaneous operating reserves	184,018	123,914
Total reserves	<u>\$ 1,440,291</u>	<u>\$ 1,589,763</u>
STOCKHOLDERS' EQUITY:		
Common stock—		
Authorized—1,000,000 shares without par value		
Issued—827,634 shares	<u>\$ 6,977,422</u>	<u>\$ 6,977,422</u>
Earnings used in the business:		
Appropriated for—		
Future price declines of inventories in retail stores, not valued on basis of last in, first out	\$ 4,400,000	\$ 4,400,000
Contingencies, etc.	704,258	704,258
Unappropriated, per accompanying statement	<u>33,378,901</u>	<u>29,245,913</u>
	<u>\$38,483,159</u>	<u>\$34,350,171</u>
Together	<u>\$45,460,581</u>	<u>\$41,327,593</u>
Deduct—		
Common stock held in treasury—9,057 shares, at reduced amount carried on books	<u>241,143</u>	<u>241,143</u>
Total stockholders' equity	<u>\$45,219,438</u>	<u>\$41,086,450</u>
	<u>\$68,234,584</u>	<u>\$60,769,342</u>

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

In our opinion, the accompanying balance sheet and the related statements of earnings and unappropriated earnings used in the business fairly present the financial position of First National Stores Inc. at April 1, 1950, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles. These principles were applied on a basis consistent with that of the preceding year except that during the fiscal year ending April 1, 1950 (as stated in Note 3 to the financial statements) the company adopted a policy, with which we concur, of accelerating depreciation on the cost of certain new facilities.

This opinion is based on an examination of the financial statements which was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts
May 29, 1950

FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS FOR THE FISCAL YEAR ENDING APRIL 1, 1950

Sales and revenues:			
Retail store sales			\$344,171,022
Interest and dividends received:			
From subsidiaries (Note 2)	\$ 11,000		
From others	4,298		15,298
			\$344,186,320
Costs and expenses:			
Cost of sales, expenses, etc. (exclusive of depreciation—Note 1)	\$327,660,589		
Provision for depreciation of fixed assets (including \$1,382,734 accelerated depreciation—Note 3)	3,780,934		
Interest paid	79,639		
Loss on disposition of fixed assets (net)	97,178		
Provision for federal income taxes	5,450,000		337,068,340
			\$ 7,117,980
Deduct:			
Net adjustment resulting from replacement of inventories valued on last in, first out basis, involuntarily liquidated in prior years (Note 1)	120,000		
Net earnings for the year			\$ 6,997,980

STATEMENT OF UNAPPROPRIATED EARNINGS USED IN THE BUSINESS FOR THE FISCAL YEAR ENDING APRIL 1, 1950

Balance, April 2, 1949	\$ 29,245,913
Net earnings for the fiscal year ending April 1, 1950—per statement above	6,997,980
	\$ 36,243,893
Deduct—Cash dividends paid	2,864,992
Balance, April 1, 1950	\$ 33,378,901

NOTES TO FINANCIAL STATEMENTS

(1) Merchandise in retail stores was valued at approximate average cost (on the basis of first in, first out) which did not exceed market; other merchandise, materials and supplies (aggregating \$14,229,970 at April 1, 1950 and \$12,004,830 at April 2, 1949) were valued at cost on the basis of last in, first out, or at market where lower in the case of individual items.

Partial replacement has been made of inventories which were involuntarily liquidated in prior years and, as permitted by the Internal Revenue Code, the company has elected to value the items replaced at their original inventory prices. The excess cost of replacing a portion of the inventories which were involuntarily liquidated, less estimated refunds of \$290,000 of federal taxes resulting therefrom, has been charged to profit and loss.

The use of the last in, first out method and the application of the involuntary liquidation and replacement provisions of the tax law are subject to review and acceptance by the Bureau of Internal Revenue.

(2) The net earnings of the subsidiary companies (all wholly owned and not consolidated) aggregated \$100,156 for the fiscal year ending April 1, 1950.

(3) As stated in the accompanying letter of the president to the stockholders, the company adopted during the fiscal year ending April 1, 1950 the policy of providing accelerated depreciation at the rate of 7½% per annum during the first two years of use on completed additions to warehouses, store fixtures, machinery and equipment. The provision charged to operations during the current year, which was based on additions completed during the two years ending April 1, 1950, amounted to \$1,064,724. The previous practice of charging operations with additional depreciation in anticipation of future obsolescence of store buildings has been continued and the provision of \$318,010 has also been classified this year as accelerated depreciation. The total of \$1,382,734 has not been deducted in computing the provision for federal income taxes. The accelerated depreciation is in addition to the normal depreciation on such facilities but the total depreciation over their expected lives will not exceed the cost of the facilities.

(4) At April 1, 1950 the company was obligated under 214 leases expiring after April 1, 1953. The aggregate of the minimum annual rentals under these leases is \$1,195,277, and the aggregate amount charged against operations for the fiscal year ending April 1, 1950 under all leases was \$2,674,656.

